

# FDIC State Profile

SPRING 2003

## Montana

**Non-farm job growth in Montana outperformed the nation as of November 2002, led by strong growth in the services sector.**

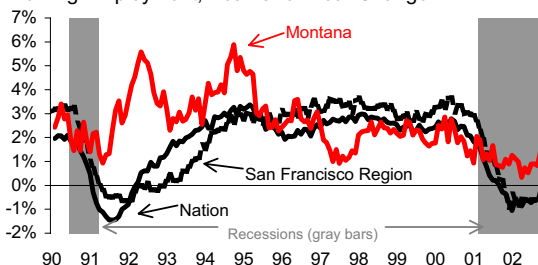
- Non-agricultural employment in Montana grew 1.1 percent year-over-year for November 2002, surpassing the nation (see **Chart 1**).
- Although the large services sector added the greatest number of employees during this period, employment in most other sectors also improved. For example, the construction sector grew 4.4 percent; finance, insurance, and real estate 2.8 percent; and services 2.8 percent.
- While government employment growth was strong at 3.6 percent, Montana faces a budget deficit that may reach \$270 million over the next two years, which may hamper new job creation in this sector.
- Employment declines, albeit moderate, were reported only in the manufacturing, transportation and utilities sectors through November 2002. Further slowing is anticipated in the manufacturing sector with the recently announced closing of Stimson Lumber in **Libby**. This closure may result in about 300 lost jobs at that mill, and another 410 in related businesses.

**The Montana economy relies heavily on the stressed agricultural sector.<sup>1</sup>**

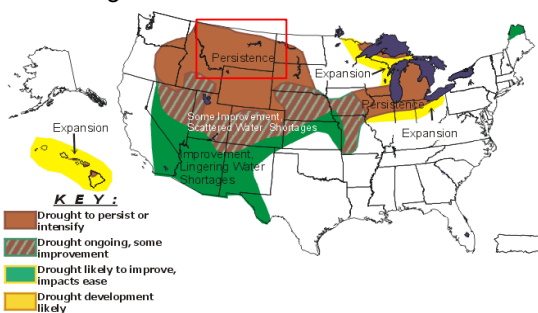
- Drought during the past four years hurt the state's agricultural sector (see **Map 1**). Wheat crop yields dropped to levels not seen since 1988.
- Government subsidy payments to agricultural producers in Montana were the fourth highest in the nation, accounting for 157 percent of net farm income in 2001 (see **Map 2**). Net farm income would have been negative without the subsidies.
- Cattle producers, which generate more than half of Montana's agricultural revenues, are also feeling the effects of the drought. Dry conditions have significantly reduced the supply and quality of hay and grazing pastureland. In addition, beef cattle prices in Montana were at \$72 per hundred pounds as of December 2002, a decline of 5 percent from the prior year.

**Chart 1: Employment in Montana Was Mildly Affected by the Recession**

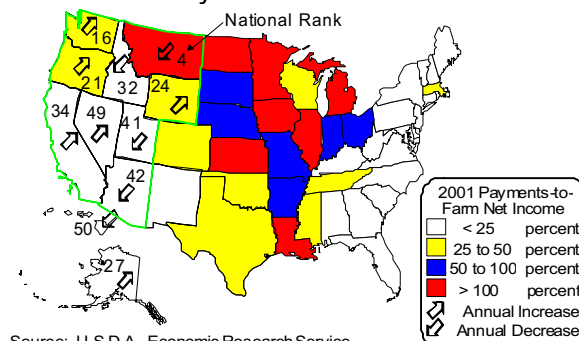
Non-Ag Employment, Year-Over-Year Change



**Map 1: Dry Conditions May Persist in Montana, According to the NOAA's Outlook**



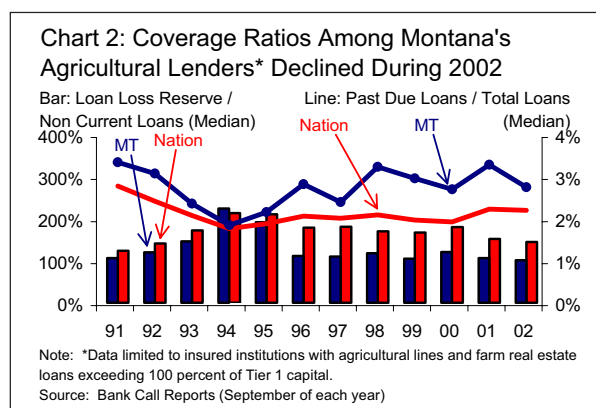
**Map 2: Montana Farmers Received Significant Government Payments in 2001**



<sup>1</sup> Agriculture represented 3.9 percent of Montana's 2000 Gross State Product.

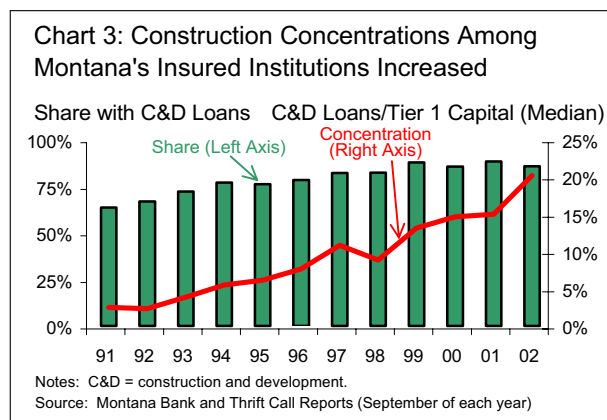
### Persistent drought and a weakened agricultural sector could pressure Montana's farm lenders.

- Just under half of Montana's banks hold agricultural loan<sup>2</sup> concentrations in excess of 100 percent of Tier 1 capital.
- Loan delinquency levels among this group of lenders have stabilized, but at a relatively high level (see **Chart 2**). Also, while the past-due loan ratio has been fairly stable over the last several years, the absolute level of past-due loans has grown along with loan growth, and provisions have not kept pace. As a consequence, loan loss reserves now barely cover severely delinquent loans<sup>3</sup> among many of these lenders.



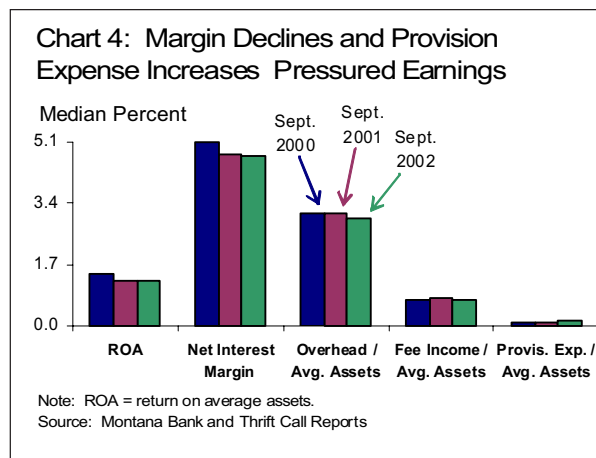
### Insured institutions headquartered in Montana have reported an increase in construction and development (C&D) lending in response to strong growth in Montana's construction sector.

- Construction activity expanded significantly in Montana during 2002, especially housing construction. Residential permits were up 53 percent year-over-year for the 11 months ending November 2002.
- C&D lending has increased among insured institutions headquartered in Montana. As of late 2002, the median C&D loan-to-Tier 1 capital ratio was 20.2 percent, a nearly ten-fold increase over a decade earlier (see **Chart 3**). While this is lower than that for insured institutions headquartered in more urban states, it is nearly double the median C&D concentration of rural banks nationally. The trend also suggests that some institutions might not have experience managing higher construction loan concentrations through a full real estate cycle.



### Lower interest rates during 2001 and 2002 have dampened earnings performance among Montana's insured institutions.

- Insured institutions headquartered in Montana reported a median after-tax return on average assets (ROA) ratio of 1.22 percent through September 2002. Although this compared favorably to the 1.10 percent reported by institutions elsewhere in the nation, it is the lowest median third quarter ROA ratio reported by Montana institutions in 11 years.
- Recent earnings trends were driven largely by interest rate-related margin compression, partially offset by lower overhead expenses (see **Chart 4**). Rising provision expenses also contributed to lower earnings.



<sup>2</sup> Agricultural loans include agricultural lines and farm real estate loans.

<sup>3</sup> Severely delinquent loans are defined as loans more than 90 days past due or in nonaccrual status.

## Montana at a Glance

<b>General Information</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>	<b>Sep-99</b>	<b>Sep-98</b>
Institutions (#)	84	86	90	90	96
Total Assets (in thousands)	13,936,144	12,952,355	12,108,373	11,557,802	11,153,677
New Institutions (# < 3 years)	2	2	1	1	3
New Institutions (# < 9 years)	5	5	3	4	6
<b>Capital</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>	<b>Sep-99</b>	<b>Sep-98</b>
Tier 1 Leverage (median)	9.38	9.49	9.51	9.68	9.92
<b>Asset Quality</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>	<b>Sep-99</b>	<b>Sep-98</b>
Past-Due and Nonaccrual (median %)	2.29%	2.50%	2.05%	2.41%	2.62%
Past-Due and Nonaccrual ≥ 5%	11	19	9	11	16
ALLL/Total Loans (median %)	1.43%	1.45%	1.37%	1.53%	1.58%
ALLL/Noncurrent Loans (median multiple)	1.22	1.36	1.73	1.48	1.24
Net Loan Losses/Loans (aggregate)	0.24%	0.17%	0.21%	0.23%	0.28%
<b>Earnings</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>	<b>Sep-99</b>	<b>Sep-98</b>
Unprofitable Institutions (#)	1	1	1	1	2
Percent Unprofitable	1.19%	1.16%	1.11%	1.11%	2.08%
Return on Assets (median %)	1.22	1.26	1.41	1.25	1.39
25th Percentile	0.98	0.99	1.08	1.01	0.99
Net Interest Margin (median %)	4.69%	4.77%	5.08%	4.99%	5.19%
Yield on Earning Assets (median)	7.06%	8.40%	8.82%	8.38%	8.93%
Cost of Funding Earning Assets (median)	2.29%	3.63%	3.69%	3.43%	3.71%
Provisions to Avg. Assets (median)	0.14%	0.09%	0.10%	0.08%	0.09%
Noninterest Income to Avg. Assets (median)	0.71%	0.76%	0.74%	0.75%	0.71%
Overhead to Avg. Assets (median)	2.99%	3.10%	3.10%	3.15%	3.30%
<b>Liquidity/Sensitivity</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>	<b>Sep-99</b>	<b>Sep-98</b>
Loans to Deposits (median %)	77.48%	76.70%	77.46%	75.61%	74.30%
Loans to Assets (median %)	65.01%	64.76%	66.22%	64.45%	63.62%
Brokered Deposits (# of Institutions)	8	8	12	10	10
Bro. Deps./Assets (median for above inst.)	4.75%	1.25%	1.42%	0.87%	1.40%
Noncore Funding to Assets (median)	14.85%	15.43%	15.61%	12.49%	12.56%
Core Funding to Assets (median)	73.15%	72.12%	73.93%	75.45%	75.80%
<b>Bank Class</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>	<b>Sep-99</b>	<b>Sep-98</b>
State Nonmember	31	32	34	35	37
National	16	17	18	18	17
State Member	33	33	33	32	36
S&L	2	2	2	2	3
Savings Bank	2	2	3	3	3
Mutually Insured	0	0	0	0	0
<b>MSA Distribution</b>	<b># of Inst.</b>	<b>Assets</b>	<b>% Inst.</b>	<b>% Assets</b>	
No MSA	71	7,156,337	84.52%	51.35%	
Billings MT	6	6,202,629	7.14%	44.51%	
Great Falls MT	4	374,615	4.76%	2.69%	
Missoula MT	3	202,563	3.57%	1.45%	